ARIZONA STATE SENATE

Fifty-Second Legislature, Second Regular Session

FACT SHEET FOR S.B. 1441

long-term care insurance; rates; premiums

Purpose

Makes various changes to Arizona's long-term care insurance laws relating to premium adjustments by insurers.

Background

Private long-term care insurance provides coverage for services used by chronically ill or cognitively impaired persons who may require assistance with basic essential activities of daily living, such as eating and bathing, typically in their final years of life. Long-term care insurance policies may cover services provided by nursing homes and other assisted living facilities as well as in-home care services, most of which are traditionally not covered under Medicare.

The premium rates for long-term care insurance policies are set by making actuarial projections about the revenue levels that insurers need to derive from their policyholders to pay for future costs of providing services covered under these policies. This includes making assumptions about mortality rates, potential lapses in coverage by existing policyholders before they have the opportunity to file claims, the number of policyholders that will retain their coverage and ultimately file claims and the premium adequacy needed to ensure sufficient reserves for future benefits to policyholders.

Under current law, the Director of the Arizona Department of Insurance (Director) may adopt reasonable rules that promote long-term care insurance premium adequacy and protect policyholders in the event of substantial rate increases. The Director may adopt rules specifying: 1) the type or types of non-forfeiture benefits to be offered as part of a long-term care policy and certificate; 2) the standards for non-forfeiture benefits; and 3) the requirements for contingent benefit on lapse, including a determination of the specified period of time during which a contingent benefit on lapse will be available and the substantial premium rate increase that triggers the contingent benefit on lapse (A.R.S. § 20-1691.02).

No person may deliver or issue for delivery in this state any long-term care policy or rate unless: 1) the form or rate has been filed with the Director; and 2) the Director has approved the form or rate. If disapproving the form or rate, the Director must provide the insurer with written notice specifying the reasoning for disapproval, which may occur if: 1) the rate is deemed not to be in compliance with statute and any applicable rule; or 2) the form contains provisions that are ambiguous, misleading or deceptive, that encourage misrepresentation of coverage or

that are contrary to statute and any applicable rule. The insurer in turn may request an administrative hearing to contest the disapproval (A.R.S. 20-1691.08).

There is no anticipated fiscal impact to the state General Fund associated with this legislation.

Provisions

Premium Adjustment Review and Approval

1. Requires the Arizona Department of Insurance (Department), by rule, to establish formal procedures for the review and approval of long-term care insurance premium adjustments.

2. Requires the procedures for long-term care insurance premium adjustment review and approval to specify all documentation that is required to be filed with the Director of the Department (Director) when filing for a premium adjustment, including the actuarial assumptions that the insurer uses to determine the adjusted premium.

3. Allows the Director to do the following:
   a) when considering a premium adjustment, to review the actuarial assumptions used by the insurer to determine the adjusted premium, including whether the proposed adjusted premium is reasonably adequate to cover the future costs of services that are to be provided to the policyholders;
   b) after reviewing the premium adjustment request, to:
      i. approve a single increase of the premium amount requested by the insurer, provided that the insurer agrees to forego future increases for a period of three years after the date that the new premium increase is effective;
      ii. approve a series of scheduled premium increases that are actuarially equivalent to the amount requested by the insurer over the lifetime of the policy; or
      iii. decline to approve any premium increase if the actuarial assumptions used by the insurer are found to be inadequate as a result of the independent actuary's findings or inconsistent with the Department's rate review standards; and
   c) require the insurer to limit any premium increase consistent with the loss-ratio standards established by the Department.

4. Allows the Director, in reviewing the soundness of the actuarial assumptions used by the insurer to determine the premium adjustment, to either:
   a) use the services of an independent actuary who is not affiliated with the insurer and who has experience in long-term care insurance pricing; or
   b) accept a review that was completed for another state, provided that the review is for the same or substantially the same policy form or where any differences in benefits and premiums are not material, and that has been completed within 18 months of the premium adjustment request filing.

5. Allows the Department to use different loss-ratio standards for current policies and prospective policies.

Notification Requirement for Premium Increases and Benefit Changes

6. Requires an insurer to notify its policyholders of the following:
   a) any premium increase approved by the Department; or
   b) any change in benefits.

7. Requires the premium increase notification to be filed with the Department and to include all of the following:
   a) the amount of the premium increase;
   b) the implementation schedule of the premium increase;
   c) any benefit reduction or premium increase mitigation options that are available to the policyholder;
   d) clear disclosure specifying the renewable nature of the policy and that premiums are subject to future increases; and
   e) an offer of any contingent benefit to the policyholder if the current policy lapses.

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8. Exempts the Department from rulemaking requirements for one year after the effective date of this legislation.

9. Makes technical and conforming changes.

10. Becomes effective on the general effective date.

Prepared by Senate Research
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